AfDB
Chief Economist Complex
Africa Economic Brief
Volume 2 • Issue 8
June 2011

CONTENTS

Mthuli Ncube
Chief Economist
and Vice President (ECON)
m.ncube@afdb.org
+216 7110 2062

Charles Leyeka Lufumpa
Director
Statistics Department (ESTA)
c.lufumpa@afdb.org
+216 7110 2175

Désiré Vencatachellum
Director
Development Research
Department (EDRE)
d.vencatachellum@afdb.org
+216 7110 2076

Characterizing Africa's Economic Dynamism

Zuzana Brixiova and Léonce Ndikumana[1,2]
With contributions from Kaouther Abderrahim

1 – Introduction

In the years before the global financial crisis (GFC), several African countries staged notable turnarounds in their economic performance. They exhibited developments similar to those experienced by the earlier emerging markets in other regions in the 1980s or more recently by some African emerging markets such as South Africa (Nellor 2008). These economies – below referred to as 'frontier markets' and 'transition ('taking-off') economies'- were characterized by: (i) growth accelerations; (ii) improved economic fundamentals --macroeconomic stability, increased role of the private sector; production and export diversification; strengthened business environment; and (iii) development of financial markets and heightened interest of foreign investors. Strong economic growth in these countries was accompanied by the emergence of a sizeable middle class, increased consumption and reduced poverty (Mubila and Ben Aissa, 2011). Most importantly, the improved economic fundamentals and the increased interest of investors bode well for their future growth prospects.

This brief proposes a new classification of African economies whereby, in particular, low income countries (LICs) are classified according to (i) how close they are today to the emerging market category and (ii) their future growth prospects. This classification is a useful tool for development policy design in African countries, and in particular for the design of country economic strategies. It is motivated by the recognition that countries at different stages of development face different challenges and bottlenecks to their efforts of accelerating growth and converging to income levels of more advanced economies.

2 – Proposed new country classification

At the outset, it is worthwhile to clarify what is meant by 'emerging markets' in this brief. While a firm definition does not exist, the term was first used by the IFC and subsequently by the Standard and Poor's (S&P). According to S&P (2007), '…a stock market is emerging if it meets at least one of several general criteria: (i) it is located in a low or middle-income economy; (ii) it does not exhibit financial depth; the ratio of the country's

[1] Zuzana Brixiova (UNDP Economics Advisor in Swaziland), Leonce Ndikumana (Director of the Operational Policy Department at the AfDB) and Kaouther Abderrahim (Consultant at the AfDB). Most of this brief was written when the authors were with the Development Research Department of the AfDB. The authors thank Mthuli Ncube for suggesting this topic and for helpful comments. They also thank participants of the AfDB research seminar series for stimulating discussions and insightful suggestions. Aymen Dhib provided excellent research assistance.
[2] The findings, interpretations, and conclusions expressed in this brief are entirely those of the authors and do not necessarily represent the view of the African Development Bank or United Nations Development Programme, their Board of Directors, or the countries they represent.

market capitalization to its GDP is low; (iii) there exist broad based controls for foreign investors; or (iv) it is characterized by a lack of transparency, depth, market regulation, and operational efficiency'.

In this brief, the term 'emerging market' means that the country has reached a certain level of development and/or its financial markets have attracted substantial interest of foreign investors. A strict application of this definition would leave the majority of African countries unclassified. This brief thus develops a broader categorization to reflect Africa's diversity. It recognizes that all Africa's LICs are transitioning to the EME status, albeit at different speeds. The resource poor, non-fragile countries are grouped into: (i) emerging markets; (ii) frontier markets; (iii) transition countries; and (iv) pre-transition countries. Resource rich and fragile countries form separate groups to reflect their specific structural features and challenges (Annex I).[3]

Clearly, no categorization can encompass all development challenges of all African countries. The brief thus focuses on characteristics that countries develop as they move towards the EME status and in particular on key fundamentals that determine the country's growth prospects (Buiter and Rahbari 2011). The brief then groups countries according to the following criteria:[4]

- **Level of income**: Countries in more advanced stages of development such as emerging markets have higher income per capita. In this brief, all emerging markets are also middle income countries, while most frontier markets had GDP per capita close to the continent's median in 2009. The income per capita is lowest in fragile states (Table 1).

- **Growth acceleration and resilience**. Both frontier markets and transition countries experienced the highest growth rates prior to the crisis. They have also shown notably greater resilience during the crisis than resource rich countries and emerging markets (e.g., middle income countries) (Figure 1). Because of their deeper integration to the global economy, the emerging markets and resource rich countries were more adversely affected by external (trade) shocks when the crisis hit, but bounced back quickly. Fragile states, whose output growth slowed marginally in 2009, recovered at subdued speed. They also have weaker medium-term growth prospects than all other African LICs sub-groups.

- **Robust macroeconomic framework and macroeconomic stability**. The majority of African countries recorded substantial improvements in macroeconomic stability before the crisis. Many frontier markets and some transition economies have maintained it for about a decade. The buffers accumulated prior to the crisis created space for a number of these countries (e.g., Kenya, Tanzania, Uganda) to adopt effective counter-cyclical policies in response to the GFC. Equally important for the future growth is that capacity of African policymakers to carry out appropriately prudent macroeconomic management has markedly increased and should serve the countries well in their quest for high growth.

- **Enabling business environment and private sector-driven growth**. Most frontier markets and some transition countries have implemented substantial reforms aimed at strengthening their institutions and developing an enabling business environment. The private sector has thus started to play an increasing role in these economies, as evidenced by rising shares of domestic and foreign private investment. Frontier and emerging markets have more diversified production and export bases than the rest of the continent. During the crisis, these two groups of countries also increased further their exports to Asian emerging markets, in contrast with the others. This greater

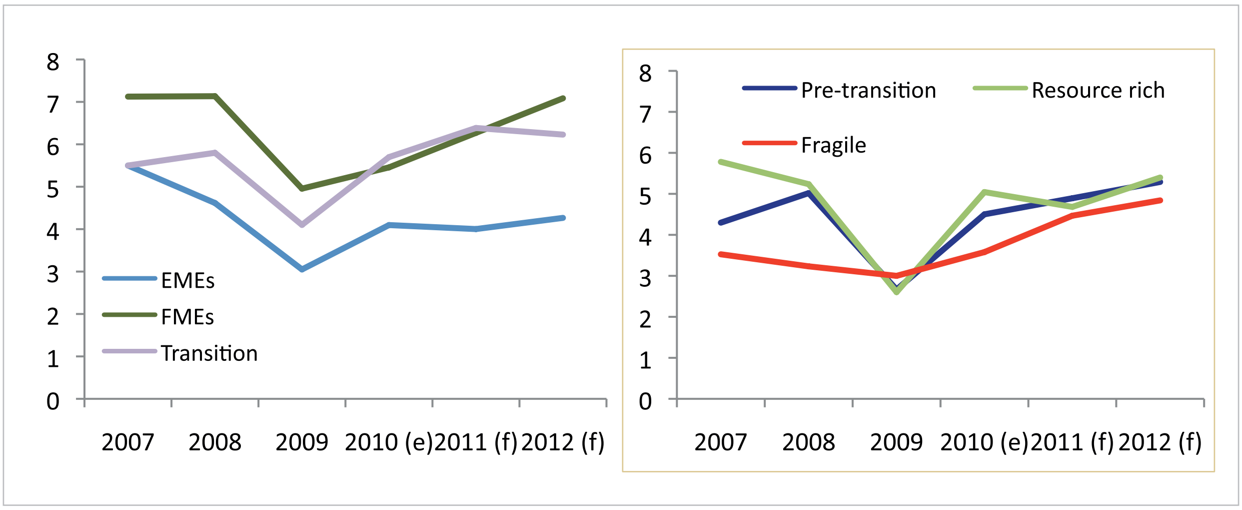
Table 1 GDP per capita in 2009 and real GDP growth prior to the crisis

	GDP per capita, 2009		Annual Real GDP growth (%) 2001-2008	
	Median (PPP, $)	relative SD (%)*	Median	Relative SD (%)*
Emerging Markets	8,666	56.4	4.2	31.0
Frontier Markets	1,480	19.1	6.3	10.4
Transition Countries	1,201	48.6	5.1	23.7
Pre-transition Countries[5]	1,175	46.7	4.6	39.1
Resource-rich Countries	4239	116.4	5.2	14.0
Fragile States	646	55.1	2.6	69.0

Source: Authors' calculations based on the African Economic Outlook database (as of March 2011). Note: *Relative SD (%) = (Standard deviation/ Mean) *100.

[3] Due to the lack of data, the following fragile states: Eritrea, Somalia and Zimbabwe are not included in the calculations of various indicators undertaken in this brief.
[4] Not every country will meet every criterion. Thus, this country classification should be seen as a dynamic exercise that will evolve over time. The aim is to initiate discussion on this important topic.
[5] The resource-rich countries constitute a heterogeneous group as can be seen by the high standard deviation of per capita GDP.

Figure 1 Annual real GDP growth rates, 2007-2012 (f) (%)



Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).
Notes: EMEs denotes emerging market economies and FMEs denotes frontier markets. Data are in medians for the subgroups. Figures for 2007, 2008, 2009 are actual data, for 2010 estimated, and for 2011 and 2012 projected.

export product and market diversification should help achieve higher and more stable growth in the future.

- **Financial markets**. In this brief, financial market development is a key distinguishing feature between the emerging (and frontier) market countries and the other resource poor African countries. Specifically, while the vast majority of emerging and frontier markets have stock exchanges and obtained credit ratings – a prerequisite for issuing sovereign bonds on international markets – very few of the pre-transition and fragile countries did. Still, equity markets in frontier markets are markedly smaller and less liquid than those in emerging market economies. Emerging markets have also substantially greater financial depth, as exhibited, for example, by higher private sector credit to GDP ratios.

At the same time, the more developed groups of African countries (e.g., emerging and frontier markets and transition economies) are also charaterized by higher inequality (Annex II, Figure II.1). Addressing the substantial inequality, including through job-rich growth geared especially towards the unemployed youth, is one of the key challenges in particular for the middle income countries (MICs) (World Bank, 2008 and Stampini and Verdier-Chouchane, 2011).

3 – Economic fundamentals

The rest of this brief elaborates on the above criteria and discusses economic performance and characteristics of these groups of countries. It underscores that EMEs have already reached middle income status and in some cases have also markedly more developed financial markets (e.g., South Africa) than the rest of the continent. In contrast, pre-transition LICs[6] and fragile states are yet to adopt policies and institutions to facilitate growth take-off, increase the presence of the private sector, and entice interest of institutional investors in their financial markets. Accordingly, policy priorities of the various groups (and countries within groups) also differ.

a. Growth and macroeconomic frameworks

With an average annual growth of almost 6 percent a year, Africa was one of the fastest-growing regions in the world during 2001-08. The growth was broad-based across the continent; except for fragile states all sub-groups grew at solid rates (Table 1). Besides conducive external environment and improved political climate, macroeconomic stability (Annex II, Table II.1) and structural reforms contributed to the continent's highest growth in decades. Macroeconomic policies and structural reforms that reduced economic volatility and uncertainty helped even African LICs boost investor confidence and attract private investment.

Resource-poor low-income frontier markets and transition economies have (on average) reached higher levels of development in the late 2000s than the other LICs. They also grew at higher rates during 2001-08 than the other sub-groups, resource rich countries aside. In the case of frontier

[6] Pre-transition LICs recorded a higher growth than the emerging market group in 2001-08 (Table 1). However, this growth rate is still grossly inadequate to reach development goals, especially given the very low income base and high poverty rates.

markets growth was not only higher but also less volatile.

The relatively strong fundamentals and prudent policies adopted before the crisis also helped the continent weather the crisis well and continue to expand in 2009, albeit at a lower rate than in past years. Most African countries and especially frontier markets and transition countries maintained prudent macroeconomic policies and structural reforms during the crisis. Where policy buffers allowed, countries implemented stimulus packages to remove the supply side bottlenecks (e.g., increased expenditures on infrastructure in East African countries). Countries with limited fiscal space (e.g., Ghana) have embarked on fiscal consolidation to boost investor confidence. Frontier markets and transition countries have weathered the crisis better than the rest of the continent in part because of closer economic ties with China.

Frontier markets and transition countries exhibit higher medium-term growth rates (Figure 1). Deeper regional economic relations in case of East Africa and stronger economic ties with the emerging Asia for most countries in these two groups continue to play an important role in this respect. As the impact of counter-cyclical policies adopted in 2009 and 2010 will phase out, growth will increasingly rely on economic fundamentals. In that context, it is reassuring that during the GFC for the most part African policymakers resisted protectionist tendencies and stayed focused on long term goals, including building an enabling investment climate. Several countries have markedly improved their performance as measured by the "Doing Business" indicators. In 2010, one of the transition economies – Rwanda – was the top reformer on the World Bank Doing Business ranking.

Looking ahead, the key challenge for African countries, especially the LICs, is to reach strong, sustained and shared growth and narrow the productivity and income gaps with more advanced economies. It still remains to be seen whether the crisis lowered the potential (trend) growth rates of these countries and, if so, what policies can mitigate this impact. Factors stemming from the crisis that could negatively impact Africa's growth potential include: (i) worsened credit conditions on international financial markets; (ii) slower progress with structural reforms; and (iii) increased protectionism. If not addressed, these factors together with longstanding challenges such as climate change may worsen the continent's long term growth prospects.[7]

Nevertheless, there are many reasons to be optimistic about Africa's long term outlook, especially for frontier markets and transition countries. Given the large productivity and income gaps with advanced economies, combined with strong economic fundamentals, these countries could grow at or above 7 percent annually (assuming about 2 percent population growth) through the catch-up process and better utilization of their abundant resources (Annex II, Table II.2). And if all African countries grew at or above 7 percent for the next twenty years, Africa would become a global growth pole, contributing to the global economy also through its large consumer market (AfDB et al., 2010).

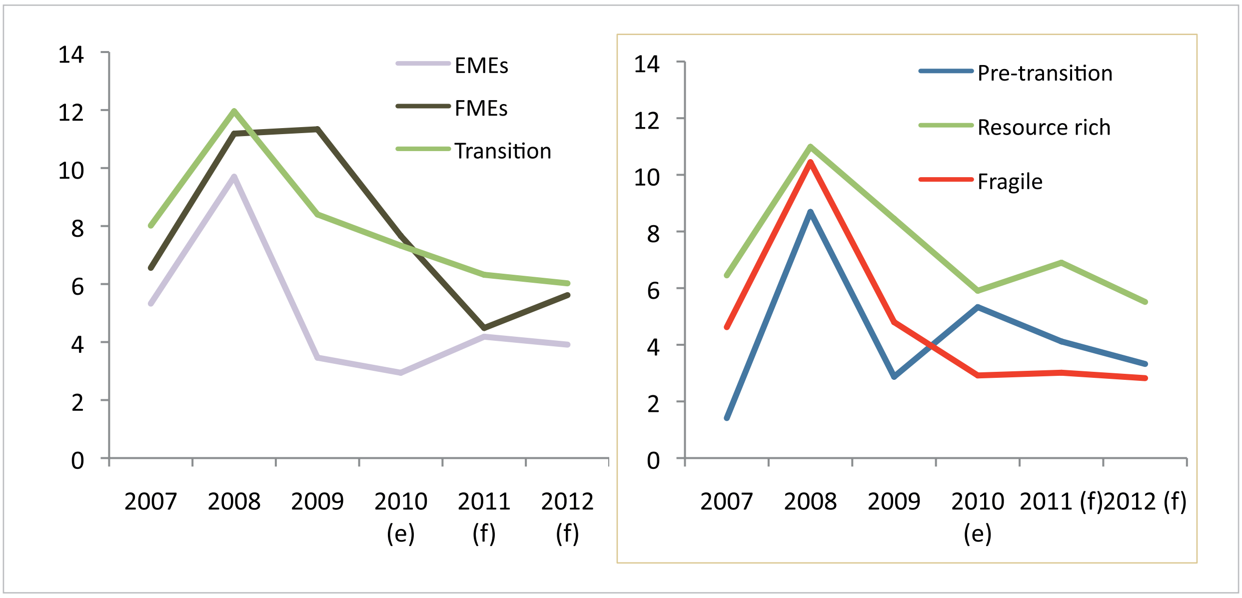
Flexible, pro-growth macroeconomic frameworks can help African countries reach their growth potentials. On the fiscal policy side, this implies that fiscal sustainability cannot be achieved through short term – and often ad hoc -- cuts in growth enhancing public expenditures (e.g., infrastructure, human capital). Instead, policy makers need to strike a balance between short term fiscal adjustment and longer term growth objectives (Ley, 2009; Kasekende, Brixiova, and Ndikumana, 2010). On the monetary policy side, the focus, especially in LICs, needs to shift from overemphasizing short term stabilization and very low inflation towards strong, sustained and shared growth. Flexible inflation targeting frameworks, which would allow sufficient room for private sector credit expansion, could be useful in this regard (Heintz and Ndikumana, 2011).

In most cases very low inflation (below 5 percent) is not an appropriate target for LICs and in some cases it may be even achieved at the expanse of their growth (Brixiova and Ndikumana, 2010 and IMF, 2005). Nevertheless, as Figure 2 shows, both fragile states and pre-transition countries – groups that would especially benefit from rapid growth, given their low levels of development – are projected to maintain their inflation below 5 percent in 2011 and 2012. Both sub-groups are also expected to grow below 6 percent during these years.[8]

[7] During growth decelerations such as the one that Africa experienced during the crisis, some of the economic fundamentals (such as investment rates, human capital, business environment, or infrastructure) may have been eroded because of the lack of financing. A setback in institutional reforms could delay technology adoption.

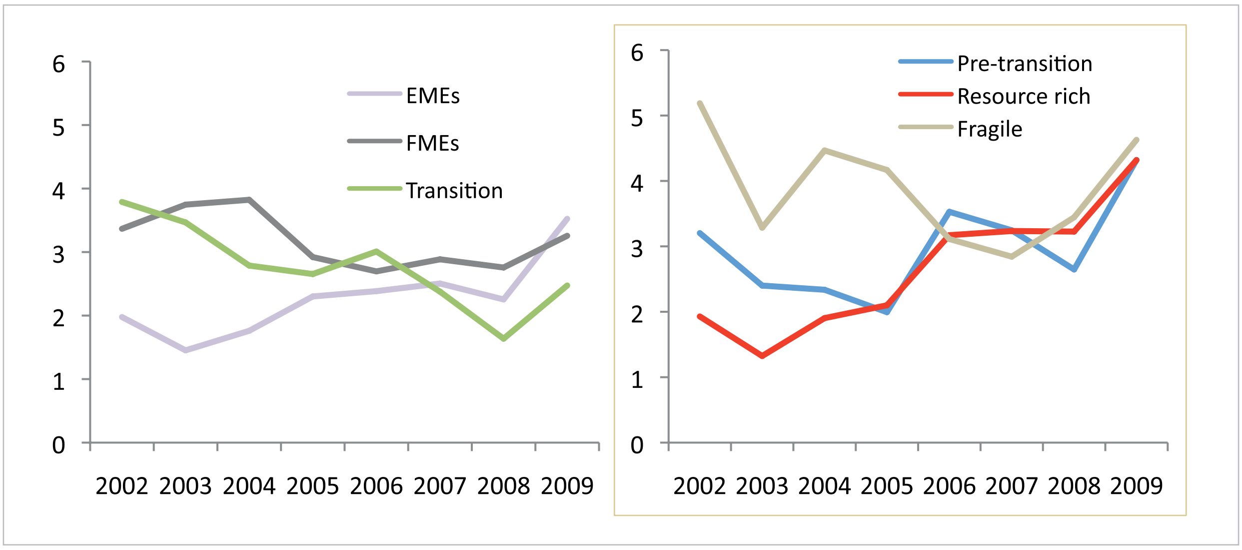
[8] This is not to suggest that countries that achieved low inflation should run it up to reach high growth path. All this note is suggesting is that (1) countries that have inflation in double digits may not want to lower it to very low levels and (2) moderate increases in inflation are acceptable for countries that have been struggling to accelerate growth.

Figure 2 Annual CPI inflation, 2007-2012 (f) (%)



Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).
Notes: EMEs denotes emerging market economies and FMEs denotes frontier markets. Data are in medians for the subgroups. Figures for 2007, 2008, 2009 are actual data, for 2010 estimated and for 2011 and 2012 projected.

Figure 3 Foreign reserves, 2001-2009 (months of imports)



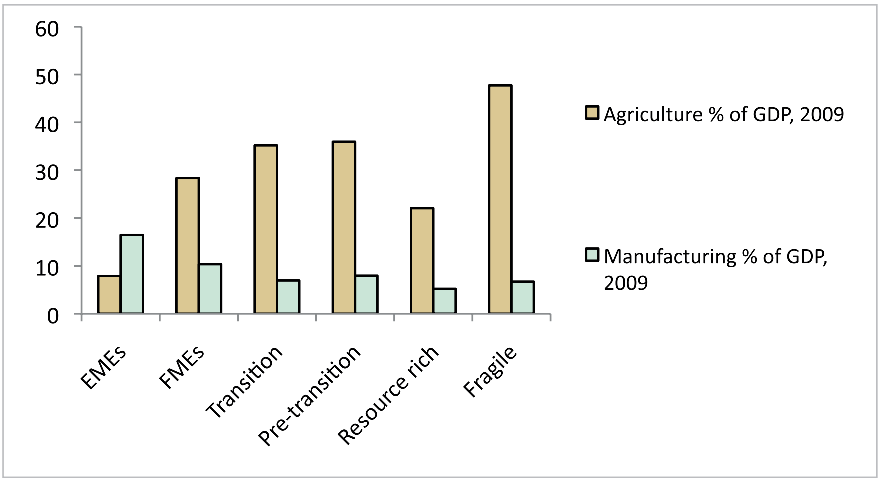
Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).

Important factors behind Africa's resilience during the crisis were debt reduction (in part due to HIPC and MDRI initiatives in mid-2000s) and in most countries also having solid levels of international reserves (Figure 3), which helped maintain credibility of macroeconomic policies. At the same time, an open question remains as to whether increasing reserves (in terms of imports and in absolute levels) in 2009 was an optimal policy for fragile and pre-transition countries or whether these could have been used more effectively on countering the GFC. Given the scarcity of resources, going forward, African policymakers especially in resource rich countries will need to strike an appropriate balance between credibility of their macroeconomic frameworks and investment opportunities. Accordingly, Nigeria plans to establish a sovereign wealth fund, with an infrastructure fund as a component that will manage (i.e., save and invest) the country's oil revenues (Brixiova et al., 2011).

b. Structural change, reforms and private sector development

Structural transformation – or rather the lack of it – remains the Achilles heel of Africa's economic performance. With somewhat higher share of manufacturing in GDP, emerging and frontier markets fare better than other groups (Figure 4). Yet for the continent to reach its growth potential, there is an imperative need for a shift from the low-productivity, mostly subsistence activities in agriculture and especially in the informal sector to more productive activities in manufacturing and service sectors. This will require acceleration of structural reforms to enhance further the business environment and induce private domestic and foreign investment.

Figure 4 Production structure, 2009



Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).
Note: EMEs denotes emerging market economies and FMEs denotes frontier markets.

In the 2000s many African countries implemented structural reforms that improved the business climate, with several countries recording steady improvements in the Doing Business ranking. In 2007, Africa was the 3rd best reforming region, after Eastern Europe and OECD. In recent years, EMEs such as Egypt and Tunisia, frontier markets such as Ghana, Kenya, Tanzania and transition countries such as Rwanda and Burkina Faso were among the top ten reformers. In 2010, Rwanda came on top of all countries in DB ranking. Hence the rankings/indexes of business environment improve along the path from pre-transition to emerging markets subgroups. Consistently, countries with better business environments also record higher private investment, both domestic and foreign (Annex II, Table II.3).

As Table 2 indicates, reform challenges to be addressed vary across sub-groups. For example, frontier markets score surprisingly low on control of corruption and corruption perceptions. At the same time, due to their relatively developed financial sectors, they perform well on access to credit. In contrast, transition countries fare relatively well in controlling corruption, but still have ways to go in developing their financial markets and easing access to credit.

Table 2 a. Indicators of the business environment in 2009 and 2010

	Starting business Ranking 2010 median 1/	Access to credit Score 2009 median 3/	GCI 2/	Rule of law	Voice and accountability
			Ranking 2010, median 1/		Score 2009, median 3/
Emerging markets	90	89	75	0.08	0.79
Frontier markets	112	68	114	-0.44	-0.07
Transition	132	128	125	-0.51	-0.25
Pre-transition	152	152	124	-0.69	-0.62
Resource rich	152	138	115	-1.13	-1.09
Fragile states	148	145	137	-1.20	-0.73

Source: Authors' calculations based on the World Bank Doing Business and Governance databases and the World Economic Forum Global Competitveness Index (GCI) ranks. 1/ Ranking out of 183 countries. 2/ GCI 2010 ranking for 139 countries; it does not include all African countries. 3/Scores range from -2.5 (worst) to 2.5 (best).

Table 2 b. Indicators of government effectiveness and corruption in 2009 and 2010

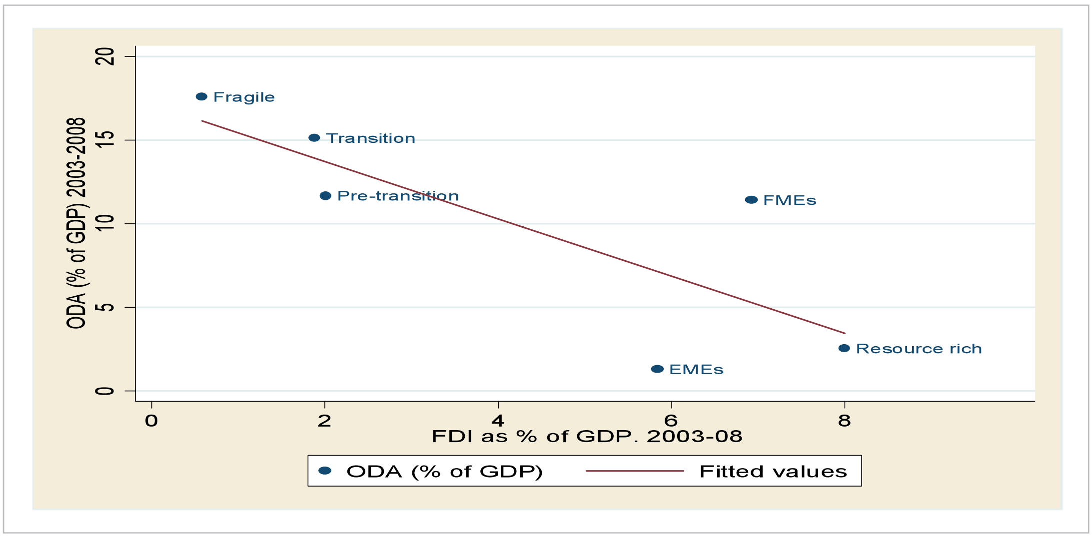
	Government effectiveness	Control of corruption	Perceptions of corruption
		Score 2010, median 1/	Ranking 2009, median 2/
Emerging markets	0.16	0.10	55
Frontier markets	-0.41	-0.47	128
Transition	-0.52	-0.40	89
Pre-transition	-0.75	-0.66	106
Resource rich	-1.15	-1.08	150
Fragile states	-1.17	-0.82	158

Source: Authors' calculations based on the World Bank Governance database and the Transparency International Corruption Perception Index. 1/Scores range from -2.5 (worst) to 2.5 (best). 2/ Ranking out of 180 countries.

In sum, most of the frontier markets and emerging economies have now stable policy and macroeconomic environments, striving or at least developing private sectors, open trade and investment regimes, relatively well-developed infrastructure, well-designed investment promotion activities, and programs to improve the skill levels of their people. As the crisis showed, high and sustainable growth rates hinge on healthy domestic economic fundamentals, diversified production and exports bases, and capacity to absorb shocks. While emerging markets and several frontier markets (e.g., Kenya, Uganda, Tanzania) have reached some degree of export diversification, the excessive dependence on commodity exports of many other countries hampers their ability to reach their growth potential.

In the post-crisis global economy, where many advanced countries are focused more on their own fiscal consolidations and less on external assistance, African countries will increasingly rely on domestic resources, FDI and nontraditional creditors to meet their substantial financing needs. The performance of emerging and frontier markets suggests that these countries offer substantial returns to investment that offset the generally high risk perception associated with being located in Africa (Figure 5). In fact, the high growth of some countries was in part supported by large FDI inflows, including from emerging Asia (China and India), with FDI stocks more than tripling between 2001 and 2008 (UNCTAD, 2010). Other than oil exporters, emerging and frontier markets received a large share of this investment.

Figure 5 Sources of finance – FDI and ODA, 2003 – 08



Source: Authors' calculations based on the African Economic Outlook database (as of March 2011). Notes: EMEs denotes emerging markets and FMEs denotes frontier markets. FDI inflows were least volatile for EMEs and FMEs and most volatile for fragile states.

Table 3 Domestic revenue mobilization

	Tax Revenue (% of GDP, 2008)	Tax Effort Index, 2007	Cost of Paying Taxes (hours per year, 2009)
EMEs	25.1	1.5	161
FMEs	14.7	1.3	219
Transition	15.9	1.3	216
Pre-transition	13.4	1.0	270
Resource rich	21.9	0.7	284
Fragile	13.8	1.4	324

Source: Authors' calculations based on the African Economic Outlook database (as of March 2011). Note: EMEs denotes emerging market economies and FMEs denotes frontier markets.

Domestic resource mobilization will become key for financing growth enhancing expenditures in infrastructure and human capital. Again, substantial differences exist across Africa's sub-groups, with EMEs markedly outperforming the rest in terms of collected government revenue. Yet some sub-groups, in particular fragile states (e.g., Liberia), exhibited a commendable performance in tax collection, especially relative to their level of development (Table 3).

4 – Financial markets

Prior to the GFC, several African countries (e.g., Ghana and Kenya) other than the traditional oil exporters had attracted an increasing interest of foreign institutional investors into their financial markets. To the extent that these countries can initiate and sustain reforms to address underlying structural constraints, and implement carefully designed industrial policy, they have the potential to become the next generation of emerging market economies. In addition to investors' search for diversification and new capital markets, this interest reflected high pre-crisis growth rates recorded by many African countries as well as their growth potential.

The country sub-groups in this brief differ in terms of development of their financial sectors. For example, a large portion of emerging and frontier markets has their own stock exchanges and obtained credit ratings. Marked differences in the role of the private sector credit in the economy also exist. Capital markets of EMEs are larger and more liquid than those of frontier markets, as shown by standard indicators of financial depth and market capitalization (Annex II, Table II.4). While financial systems across Africa are dominated by the banking sector, the role of non-bank institutions has been rising in emerging and frontier markets. With Africa's resilience during the crisis and quick recovery, capital markets are now likely to attract an increased portion of global private capital flows. This will facilitate risk diversification and mobilization of long-term financing, but capital flows still need to be well managed to preserve debt sustainability.

While many frontier markets post higher returns to equity than other groups, their equity markets are also less liquid and lack depth, hence raising the risk premium. Stock markets in sub-Saharan Africa are particularly small with the exception of South Africa's stock exchange (Deutsche Bank Research, 2009). As in other regions, Africa's stock markets experienced 're-coupling' with markets in advanced economies when the crisis hit. The indices have been gradually recovering since early 2009, with the exception of Nigeria and Ghana, where the global financial crisis amplified already existing structural difficulties in the financial sectors.

In 2007 Ghana successfully issued a sovereign bond in international markets, which was several times oversubscribed. In 2008, several other emerging and frontier markets postponed their plans to issue sovereign bonds because of the crisis (e.g., Tanzania, Uganda). With the recovery of the global economy under way, they have recently announced their plans to do so in 2011. However, as the experiences with sovereign bond issuance of Ghana and Senegal illustrate, the success of these plans will continue to depend on the robustness of macroeconomic policy frameworks as well as careful preparation and marketing.[9] Moreover, borrowed resources need to be used judiciously so that debt sustainability is preserved.

While Ghana has led the way in terms of accessing international capital markets,

[9] In 2007, Ghana issued its first sovereign bond on international capital markets with a value of US$750 million. To test the market, Senegal issued its first sovereign Eurobond in 2009 with a value of US$200 million. In 2011, Senegal plans to launch a debut sovereign Islamic bond of around $200 million.

Kenya has demonstrated innovativeness in the development of domestic bond markets. During the crisis, the country has relied heavily in its domestic bond issuance to support counter-cyclical fiscal measures and finance its infrastructure expenditures. Along these lines, Nigeria issued a government bond in 2009 in order to support credit to agriculture. Ghana's domestic bond market has been also developing, but was overshadowed by the country's access to international markets. However, as the experience of emerging Europe during this crisis illustrated, the importance of local currency bond markets for diversification cannot be overstated.

5 – Conclusions

Africa's vast economic potential has been shown once again through the continent's fast pre-crisis growth and resilience during the global financial and economic crisis. If all African countries could grow as some of the frontier markets (at 7 or more percent a year) for the next 20 years, the continent would play a key part in rebalancing the global economy through exports and consumer markets. Recognizing the continent's recent economic dynamism, this brief has suggested refining the classification of African economies, especially the diverse group of low-income ones (ADF). In addition to the level of income, it suggests to categorize countries according to their past growth rates, growth prospects, robustness of their macroeconomic frameworks, development of their private sectors and their financial markets.

The main purpose of such classification is to help guide operational decisions of the African Development Bank and help ensure that country-specific circumstances are taken even more into account in designs of country strategies, while benefiting from lessons and experiences of peers.

REFERENCES

Africaninvestor (2011), 'Africa is Richer than You Think', Africaninvestor (March).

African Development Bank, UNECA, AUC and KIEP (2010), 'Achieving Strong, Sustained and Shared Growth in Africa in the Post-crisis Global Economy', paper prepared for the KOAFEC Ministerial Meeting (Seoul, September).

Brixiova, Z.; Mutambatsere, E.; Ambert, C. and Etienne, D. (2011), 'Closing Africa's Infrastructure Gap: Innovative Financing and Risks', African Development Bank ECON Brief, Vol. 2, Issue 1 (April).

Brixiova, Z. and Ndikumana, L. (2010), 'Supporting Africa's Post-crisis Growth: The Role of Macroeconomic Policies', AfDB Working Paper No. 117.

Buiter, W. and Rahbari, E. (2011), 'Global Growth Generators', Citibank Global Economics View, February 21.

Deutsche Bank Research (2009), 'African Frontier Capital Markets: More than a Flash in the Pan', July 31.

Heintz, J. and Ndikumana, L. (2011), 'Is There a Case for Inflation Targeting in Sub-Saharan Africa?'Journal of African Economies, forthcoming.

International Monetary Fund (2005), 'Design of Monetary and Fiscal Policies in Low Income Countries', IMF Policy Paper.

Kasekende, L., Brixiova, Z. and Ndikumana, L. (2010), 'Africa's Counter-cyclical Policy Responses to the Crisis', Journal of Globalization and Development (Symposium Edition), Vol. 1(1), Article 16.

Ley, E. (2009), 'Fiscal Policy for Growth', World Bank PREM Economic Policy Notes, No. 131 (April).

Mubila, M. and Ben Aissa, M. (2011), 'The Middle of the Pyramid: The Dynamics of the Middle Class in Africa', African Development Bank Market Brief (April 20).

Nellor, D. C. L. (2008), 'Rise of Africa's "Frontier" Markets', Finance & Development, Vol.45 (3), September, 30 – 33.

Stampini, M. and Verdier-Chouchane, A. (2011), 'Labor Market Dynamics in Tunisia: The Issue of Youth Unemployment', African Development Bank Working Paper No. 123.

Standard & Poors (2007), 'S&P Emerging Markets Index: Index Methodology', November.

UNCTAD (2010), World Investment Report 2009, UNCTAD: Geneva.

World Bank (2008), Youth Unemployment in Africa: The Potential, The Problem, The Promise, Washington, DC: World Bank.

Volume 2 • Issue 8 • June 2011

ANNEX 1 Country classification[10]

Emerging Markets (MICs)
Cape Verde
Mauritius
Morocco
Seychelles
South Africa
Swaziland
Tunisia

LICs, Frontier Markets
Ghana
Kenya
Mozambique
Senegal
Tanzania
Uganda

LICs, Transition Countries
Burkina Faso
Djibouti
Ethiopia
Lesotho
Malawi
Rwanda
Sao Tome and Principe

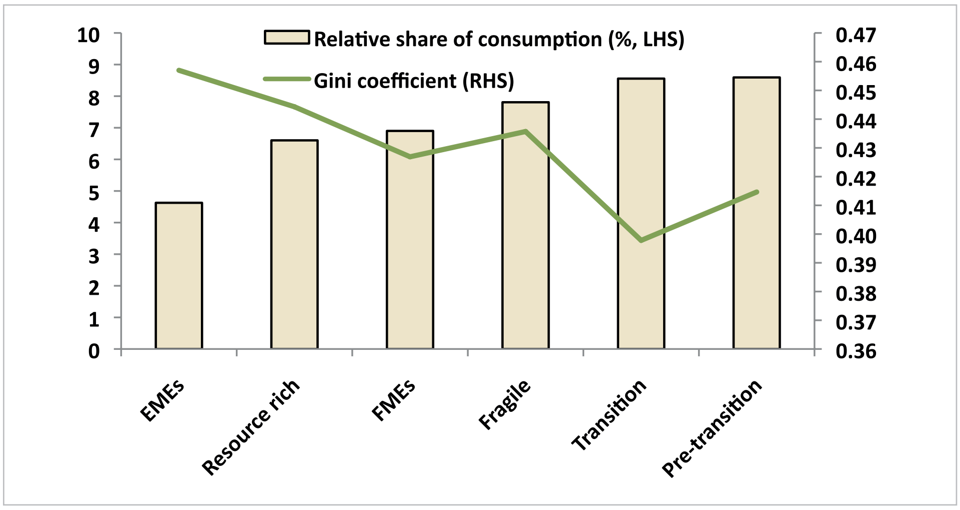
LICs, Pre-transition Countries
Benin
Gambia
Madagascar
Mali
Mauritania
Niger
Togo

Resource-rich Countries
Algeria
Angola
Botswana
Cameroon
Chad
Congo, Dem. Rep.
Congo, Rep.
Cote d'Ivoire
Egypt
Equatorial Guinea
Gabon
Guinea
Libya
Namibia
Nigeria
Sierra Leone
Sudan
Zambia

LICs, Fragile States
Burundi
Central African Rep.
Comoros
Guinea Bissau
Liberia

ANNEX 2 Figures and Tables

Figure 2.1 Measures of inequality, 2009



Source: Authors' calculations based on the African Economic Outlook database (as of March 2011). Notes: EMEs denotes emerging market economies and FMEs denotes frontier markets. Data are in medians for the subgroups. Gini coefficient takes values between 0 (complete equality) and 1 (complete inequality). Values correspond to the latest available year from 2000 on. Share of consumption is derived as ratio between shares of consumption of poorest 10% of the population relative to the share of the 10% richest population, in percent.

[10] Oil countries are defined as in the current AfDB classification. Non-oil exporting countries are classified as resource rich if their primary commodity rents exceed 10 percent of GDP (as in the IMF Regional Outlook). It needs to be recognized that some of the resource rich countries are also fragile, but for most of them resources drove the recent paths of growth, fiscal and current account balances.

Table 2.1 Africa: Current Proven Stock of Energy Resources (March 2011)

	Value at 5-year average price (mln of US$)
Recoverable hard coal (mln metric tons)	3,402,112
Natural gas (trl cubic feet)	1,717,862
Reserves of crude oil (bln barrels)	7,899,928
Uranium resources (metric tons)	63,067
Total	13,082,968

Source: Africa investor, page 54 (March 2011).

Table 2.2 Macroeconomic outcomes prior to the crisis 2001-2008

	Fiscal Balance	Current Account Balance	CPI Inflation Median, %
	Median (% of GDP)		
Emerging Markets	-2.2	-3.6	6.1
Frontier Markets	-2.9	-7.0	7.5
Transition Countries	-1.6	-9.1	9.1
Pre-transition Countries	0.2	-9.0	3.3
Resource-rich Countries	2.2	2.5	7.2
Fragile states	-2.2	-6.7	3.9

Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).

Table 2.3 Private sector credit and export diversification

	Priv. Sector Credit 2001-09	Priv. Sector Credit, Av. 2001-09 Change 2009/08	Priv. Sector Credit Change 2009/01	Private investment, 2001-09	Export diversification (# of products)
	Median (% of GDP)				
EMEs	50	1	19	18.6	31
FMEs	15	8	13	16.4	18
Transition	15	-1	5	13.2	5
Pre-transition	15	1	4	14.3	5
Resource rich	9	2	5	15.2	3
Fragile states	9	5	11	5.5	5

Source: Authors' calculations based on the African Economic Outlook database (as of March 2011).
Note: Export diversification is defined as # of products accounting for at least 75 percent of country's exports.

Table 2.4 Development of financial markets, 2009

	Financial depth	Stock market	Financial markets	
	Broad money (% of GDP)	Capitalization (2001-09, % of GDP)	Stock market (%, Y/N)	Credit rating (%, Y/N)
Emerging Markets	80	36	71	71
Frontier Markets	35	12	50	83
Transition	36	18	14	57
Pre-transition	31	0	0	14
Resource-rich	23	21	17	22
Fragile States	29	0	0	0

Source: Authors' calculations based on the weekly financial reports of the AfDB and the African Economic Outlook and the World Bank Development Indicators databases. Note: South Africa's capitalization in 2001-09 was 207.8 % of GDP. Values for sub-groups are in medians.

AfDB
Chief Economist Complex

Africa Economic Brief

Volume 2 • Issue 8 • June 2011